TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL NOTE

SB 58 - HB 1212

February 26, 2013

SUMMARY OF BILL: Exempts from inheritance tax any gift made by a decedent within three years prior to death which is made on or after January 1, 2012.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – $13,036,000/FY12-13
$24,253,800/FY13-14
$14,741,400/FY14-15
$3,948,200/FY15-16

Assumptions:

- Pursuant to Tenn. Code Ann. § 67-8-314(b), inheritance tax shall not be imposed on transfers of property in the case of a decedent dying in 2016, or in any subsequent year.
- As a result, any fiscal impact resulting from this bill will take place in FY12-13 thru FY15-16.
- To determine the amount that would be gifted within three years of donor's death in order to qualify for the proposed exemption, the following methods were used by the Department of Revenue (DOR): using statistic from the Centers for Disease Control and Prevention (CDC), percentages and probabilities of foreseeable deaths were calculated for each five-year age class; using historical estate tax returns that contain information on age of the deceased and taxable estates, probabilities of foreseeable deaths were multiplied by taxable estate values; the resulting numbers were adjusted accordingly to reflect people's unwillingness to accept death and value in maintaining control of assets, and to account for the inheritance tax exemptions.
- The resulting decrease in state revenue is estimated to be: $11,584,505 in FY12-13, $22,489,303 in FY13-14, $12,631,258 in FY14-15, and $3,458,655 in FY15-16.
- To determine the amount of decrease in state revenue from unexpected death of donors making a gift and not expecting to die within a three-year time frame, the following methods were used by DOR: using CDC data, probabilities of unexpected death were calculated for each five-year age class; assumption was made that wealthier and older donors are likely to gift higher amounts; using United States' household wealth data and state population data by age, percentages of taxable gifts were calculated for each five-year age class, and such percentages were multiplied by the probabilities of unexpected death and by historical gift taxes, resulting in an amount of taxes that would be collected

by gifts being pulled back into the estate and taxed through inheritance tax under current law.

- The resulting decrease in state revenue is estimated to be: $1,451,455 in FY12-13, $1,764,526 in FY13-14, $2,110,111 in FY14-15 and $489,579 in FY15-16.
- The Fiscal Review Committee staff does not have access to the full statistical methods used by DOR and cannot independently verify their accuracy.
- The total decreases in state revenue as a result of this bill are estimated to be:
    - $13,035,960 in FY12-13 ($11,584,505 + $1,451,455)
    - $24,253,829 in FY13-14 ($22,489,303 + $1,764,526)
    - $14,741,369 in FY14-15 ($12,631,258 + $2,110,111)
    - $3,948,234 in FY15-16 ($3,458,655 + $489,579).

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

Lucian D. Geise, Executive Director

/bos